

Mandatory Funding in the Department of Education

Most of the Department's 150-plus programs are funded through discretionary appropriation acts enacted each fiscal year. However, there are many education programs—some of them large—that are funded directly through their authorizing statutes. For many budgeting purposes, these programs are classified as mandatory.

The Direct Loan program is the largest mandatory program in the Department. The Direct Loan program will make an estimated \$120 billion in loans to postsecondary students and their families in fiscal year 2011. However, the appropriation for these loans is not \$120 billion. Instead, under the Credit Reform Act, the appropriation is the amount necessary to subsidize the loan volume for the life of the cohort of loans made in the fiscal year, and the subsidy costs are discounted using a net present value calculation. In 2011, these subsidy costs include the government's cost of obtaining \$120 billion, defraying the in-school interest for needy undergraduates, an allowance for defaults, and other factors. These are offset by collections of fees, interest, and principal repayments. In some years, after reflecting the time value of money or the "reestimate" of prior year loans required by the Credit Reform Act, the estimated receipts exceed the cost of the subsidizing the loans.

When added together with other mandatory programs, the negative appropriation amounts for student loans in some years produce Department totals that appear to understate the annual appropriations for discretionary and mandatory programs. In 2010, 2011, and 2012, the mandatory appropriation total for the Department is projected to be negative.

Other mandatory programs include the 2010 Education Jobs Fund, Vocational Rehabilitation State Grants, a portion of Pell Grants, and a variety of smaller programs and activities. Also, in 2012, proposed mandatory savings will be used to offset Pell grant costs that are classified as discretionary.

The table that follows summarizes the appropriations for mandatory programs.